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# ALGOMA CENTRAL CORPORATION

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# FINANCIAL

## *Highlights*

### FOR THE YEAR

(In thousands of dollars, except per share figures)

	1999	1998
Revenue	\$ 257,477	\$ 239,023
Net income	\$ 7,390	\$ 15,963
Operating ratio	91%	86%
Cash flow from operations	\$ 38,622	\$ 31,205
Capital asset additions	\$ 50,635	\$ 89,107
Dividends paid per common share	\$ 1.00	\$ 1.00
Earnings per common share	\$ 1.90	\$ 4.10
Cash flow from operations per common share	\$ 9.93	\$ 8.02

### AT DECEMBER 31

(In thousands of dollars, except  
per share figures)

	1999	1998
Total assets	\$ 392,169	\$ 364,726
Shareholders' equity	\$ 196,292	\$ 194,542
Long-term debt	\$ 63,523	\$ 40,716
Long-term debt as a % of shareholders' equity	32%	21%
Common shares outstanding (000)	3,891	3,891
Equity per common share	\$ 50.45	\$ 50.00

# ABOUT THE CORPORATION

Algoma Central Corporation is the largest Canadian marine transport company on the Great Lakes-St. Lawrence Waterway, with 1999 revenues of \$257 million.

Algoma Central was incorporated as Algoma Central Railway Company in Sault Ste. Marie, Ontario on August 11, 1899. The Corporation proudly celebrated its Centennial Anniversary throughout the year in 1999.

The Company was founded following the discovery of valuable iron ore in the Michipicoten area of Ontario's Algoma Region in the late 1800's. Francis H. Clergue, the Philadelphia promoter and industrialist, needed to move the ore from the Helen Mine to the harbour on Lake Superior. For this purpose, the Algoma Central Railway was incorporated by Special Act of the Parliament of Canada with capital of three million dollars.

Soon after the railway was in operation from the mine to Michipicoten, four steam vessels were purchased in 1900. This was the beginning of the Algoma Central fleet.

The Company name was changed to The Algoma Central and Hudson Bay Railway Company in 1901. From this point on, Algoma Central carried on business as both a railway and a steamship company.

With the opening of the St. Lawrence Seaway in 1959, expansion of the fleet was a high priority. Next came a name change to Algoma Central Railway in 1965, followed by the demand for self-unloaders and further expansion of the bulkier fleet.

In 1973, Algoma Central Properties was established with major real estate holdings in the Sault. By 1984, Company revenue surpassed \$100 million, and by 1987, Marine Division revenues alone exceeded \$100 million. In 1990, the Company name was changed to Algoma Central Corporation.

Year 1992 saw the beginning of Algoma Central's Fleet Renewal Program which would ensure Algoma's competitiveness into the future.

With increased emphasis on marine, both the railway and the Algoma Region forest lands held by the Company were sold as the Company divested non-strategic assets.

As expansion of the fleet continued, Algoma Central acquired an interest in Marbulk Canada Inc. to provide a presence in ocean shipping. Algoma Tankers Limited was created with the purchase of liquid-petroleum tankers.

Algoma Central Properties Inc., now committed to the Niagara Region of Ontario, manages six valuable real estate properties in St. Catharines, in addition to its Sault holdings.

In January 2000, the Seaway Marine Transport marketing pool was formed resulting in new synergy and benefits to customers.

Today, Algoma Central Corporation proudly flies its house flag on 30 vessels sailing the Great Lakes.

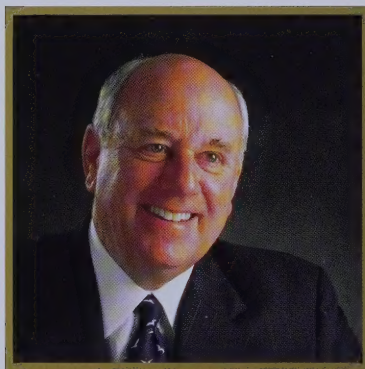
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# ALGOMA CENTRAL CORPORATION



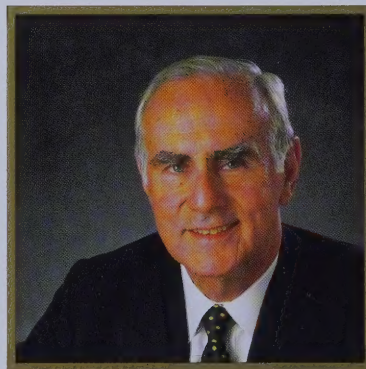
## LETTER TO SHAREHOLDERS



*Peter R. Cresswell, P.Eng.*  
President & Chief Executive Officer

Our Corporation's Centennial year, 1999, gave us the opportunity to celebrate our many accomplishments of the last century. Over the course of the year, through special events and projects, we were able to recognize and thank many of the people who are responsible for our Company's success and longevity. These include our employees, our customers, our directors and other friends and associates.

The personal contact with these many people, and the sharing of our Corporation's legacy, has enabled us to renew old acquaintances, strengthen existing bonds, and develop new relationships upon which we can build a bridge to future growth. Our goal is to move forward in this new century. On that note, we would very much like to thank everyone who has contributed to our continued presence in Great Lakes shipping over our Corporation's many years.



*The Honourable Henry N. R. Jackman*  
Chairman of the Board

We look forward to your support in the years to come.

Turning to the results of our operations, net income for the 12 months ended December 31, 1999 was \$7,390,000 or \$1.90 per share. These results are \$8,573,000 lower than 1998 net income – a reduction of \$2.20 per share.

While the results within our domestic fleets were generally as expected, the lack of adequate utilization of the bulkier fleet continues to be a challenge because of the declining movement of grain through the Great Lakes-St. Lawrence Waterway. Lower volumes of petroleum products moved by water adversely affected the results of our expanded tanker fleet. And while demand for our fleet of self-unloading bulk carriers was strong, income was constrained by continuing low water levels on the Great Lakes and increases in non-recoverable fuel costs.

Commissioning problems with the ocean-going M/V Thornhill and M/V Eastern Power, both of which were converted recently to self-loaders/unloaders, contributed to reduced earnings of Marbulk. In addition, a net loss of \$4,241,000 was incurred in the last quarter of the year on the removal and disposal of certain equipment that related to these commissioning problems.

Interest costs increased due to higher borrowings during the year to finance the acquisition of the EnerChem tanker fleet and the expansion of the Marbulk ocean-going fleet.

The negative effect of Marbulk was significant – about \$1.75 per share. Without the Marbulk effect, our earnings in 1999 would have been \$3.65 per share – a reduction of only \$0.45 per share from 1998.

To better understand our 1999 results, please refer to management's discussion and analysis of financial condition and results of operations on pages four to 15 in this report.

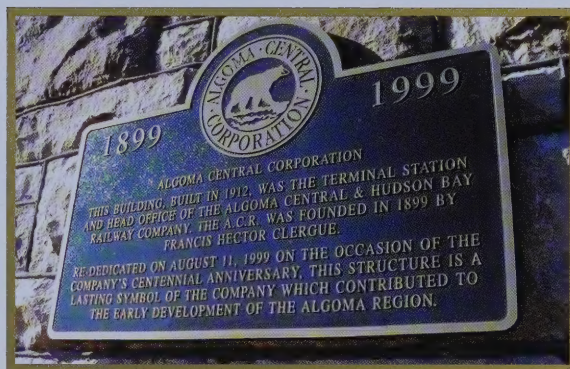
While the results are less than we would like, we have been working to position the Corporation for better results in future.

In January 1999, we increased the size of our tanker fleet with the purchase of the main operating companies and certain assets of the EnerChem Group, headquartered in Montreal. And during the year, tanker operations were relocated to St. Catharines and integrated with the operations of our dry-bulk fleets.

We now carry liquid-petroleum products for a variety of customers throughout the Great Lakes, the St. Lawrence Seaway and the coastal waters of Eastern Canada.

In June 1999, we sold our commercial property in Elliot Lake, Ontario. This property had been under-performing for many years and we did not foresee a realistic opportunity for improvement.

During the year, our Real Estate Group, which manages our commercial properties, announced the beginning of construction of the Galaxy Cinemas in Sault Ste. Marie.



*On August 11, 1999, on the occasion of the Company's Centennial Anniversary, Peter R. Cresswell, President and Chief Executive Officer, unveiled a commemorative plaque on the Company's head office building at Sault Ste. Marie, Ontario.*

Perhaps most importantly, we, along with our partner, have amalgamated the two marketing partnerships for our dry-bulk Great Lakes fleets into one new partnership, Seaway Marine Transport, effective January 2, 2000.

We recognize and appreciate the important role of our employees throughout the Corporation in dealing with the many changes that we face.

The annual general meeting of shareholders will be held in St. Catharines on May 2, 2000. We invite you to attend and look forward to seeing many of you at that time.

Peter R. Cresswell  
President and Chief Executive Officer

The Honourable Henry N. R. Jackman  
Chairman of the Board

# MARINE GROUP

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### The Fleet Status

Fourteen self-unloaders are owned and operated by the Corporation, 13 of which form part of the Seaway Marine Transport (SMT) marketing pool. One self-unloader owned by the Corporation, the M/V Sauniere, is on long-term charter to a major salt producer, and is operated outside the SMT partnership.

Nine bulkers are owned and operated, all of which are included in the SMT partnership.

Seven Canadian-flag tankers are now owned and operated with the acquisition of the EnerChem fleet.

An additional two US-flag tankers are available through our 25-percent ownership interest in Cleveland Tankers (1991) Inc. (CTI) and the long-term time charter arrangement between CTI and Algoma Tankers (USA) Inc.

Seven self-unloaders, with two of these also having self-loading capability, are owned and operated by Marbulk Canada Inc. The vessels trade mainly on the east coast of North and South America. In addition, one vessel services a long-term contract in Northern Europe, while another vessel services a long-term contract in South East Asia.

### Algoma Central Marine Group Shows Growth

Marine Group revenues increased to \$239,937,000 in 1999 from \$220,668,000 in 1998, representing an increase of 8.7 percent.

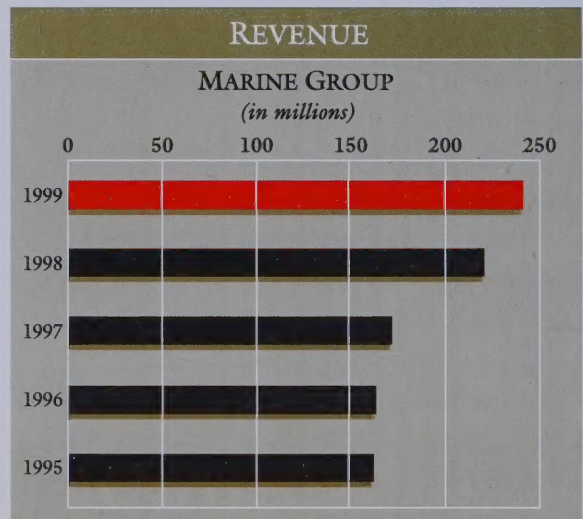
This growth is attributed to the following:

- The EnerChem fleet, which initially consisted of five vessels, was included from January 1999. During the year, one of the five vessels was sold to an offshore purchaser.
- The M/V Algowest operated within our fleet – now as a higher-revenue producing self-unloader – for the entire year.



*M/V WESER STAHL, the new 44,000-tonne ocean-going self-unloader built in Korea. She is currently trading from Rotterdam servicing the Stahlwerke Bremen GmbH steel company in Bremen, Germany.*

- There was 98-percent capacity utilization of the self-unloader fleet. This is an increase of two percent over 1998, as a result of fewer operational problems experienced.



The growth shown by the Marine Group is offset by a further reduction in bulker capacity utilization from 61 percent to 55 percent in the year. This is mainly due to lower levels of grain moved through the seaway to St. Lawrence River transfer elevators. Tanker utilization was also reduced to 79 percent from 95 percent in 1998 due to reduced shipments by water from refineries throughout the Great Lakes region.

Overall tonnage carried by our 23-vessel dry-bulk fleet and our nine-vessel tanker fleet increased 4.6 percent to 29,632,000 tonnes in 1999 from 28,333,000. Tonnage in self-unloaders increased by 2.3 percent due mainly to the addition of the M/V Algowest for the full season and to improved overall utilization. Bulker tonnage decreased by 12.1 percent due to lower utilization as a result of grain movements. Tanker tonnage increased by 49.4 percent due to the purchase of the EnerChem fleet.

### Capital Expenditures

In 1999, Algoma Central Marine capital expenditures totalled \$16,923,000. The most significant of these were:

1. The Fleet Renewal Program: \$12,782,000.
2. Retrofit of the double-hulled M/V Algocast to include a double bottom (progress payments): \$2,518,000.
3. Upgrade of onboard computer systems: \$1,548,000.

In addition, progress payments comprising our share of Marbulk Canada Inc. (MCI) capital expenditures for the construction of the new self-unloader, M/V Weser Stahl (delivered December 1999), and the acquisition and conversion to a self-unloader of the M/V Bahama Spirit in Korea: \$32,762,000.

### Capital Expenditures Projected for 2000

In the year 2000, we anticipate expenditures of \$14,635,000 on the following projects:

1. The Fleet Renewal Program, mainly for steel renewals and protective coatings: \$7,008,000.
2. The double-bottom retrofit of the M/V Algocast (progress payments): \$3,658,000.
3. Progress payments comprising our share of MCI capital expenditures, mainly for the final progress payment of the M/V Bahama Spirit, which was delivered in February 2000: \$2,533,000.

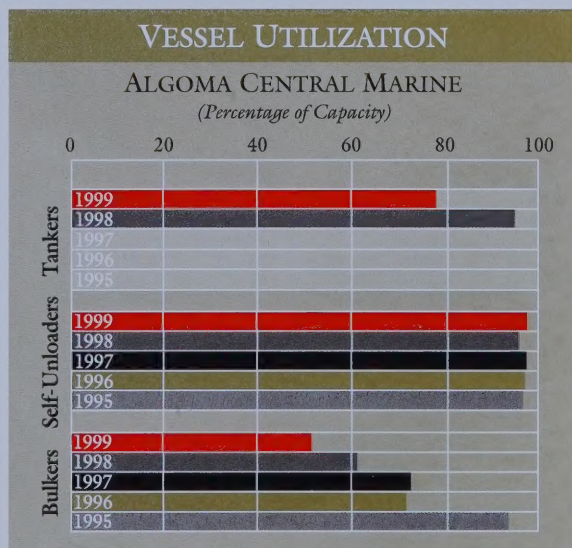
### Performance of the Vessel Marketing Pools

The pooling arrangements, Seaway Self Unloaders (SSU) and Seaway Bulk Carriers (SBC), faced many challenges in 1999. Low water levels on the Great Lakes reduced the operating efficiency of the fleet by restricting drafts at some ports, which reduced the cargo carrying capacity of vessels. Vessel fuel prices rose dramatically during the year. At year-end, fuel prices were nearly 60-percent higher than at the start of the navigation season. While some freight contracts include protection from such risks, the results of SSU and SBC were adversely affected by the sudden changes.

Overall market demand continued at levels similar to 1998; however, not all market sectors performed equally. A significant surge in foreign steel imports to North America during 1998 and the first half of 1999 reduced the demand of North American steel producers for raw materials traditionally carried by vessels in the pools. By late 1999, however, the outlook for this sector had improved and demand in 2000 is expected to be as strong as before the influx of imported steel.

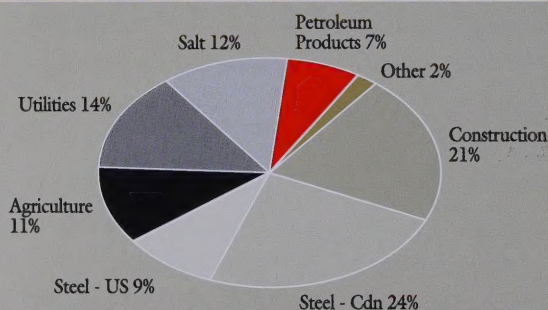
For the self-unloader fleet, record demand in the construction-materials and power-generation market segments helped to keep the fleet fully utilized.

One of the challenges that Seaway Marine Transport faces is the level of grain shipped on the Great Lakes-St. Lawrence Waterway.



The amount of grain shipped through the Waterway over the last 20 years has declined by over 50 percent. Grain is the cornerstone of toll paying traffic through the Great Lakes-St. Lawrence Waterway, and without it, the very efficiency of the Waterway, particularly the Quebec/Labrador ore movement, will be affected. We are encouraged by the federal government's initiative to review Canada's grain handling and transportation system, and the related review by the Ports Task Force. We are hopeful that prompt action by the government on the recommendations received will help this situation.

### 1999 INDUSTRY SEGMENTS



Based on tonnes carried by SBC and SSU vessels and by vessels operated directly by the Corporation (excluding MCI vessels).

### CAPITAL ASSET ADDITIONS

#### MARINE GROUP (in millions)



### Introducing Seaway Marine Transport

In January 2000, the Corporation and Upper Lakes Group Inc. merged their Canadian shipping partnerships, Seaway Self Unloaders and Seaway Bulk Carriers, into a single partnership called Seaway Marine Transport (SMT).

The creation of SMT provides important synergies and the maximization of recent innovations. Most beneficial is the Interactive Customer Information Site, added in 2000. This connects customers to the pool's vessel traffic reporting, scheduling, accounting, and historical information on a real-time 24-hour per day basis using the Internet.

From a centralized location in St. Catharines, SMT will handle all scheduling and marketing for the combined dry-bulker fleets of Algoma Central Corporation and Upper Lakes Group Inc. A marketing representative will be appointed to manage grain transportation from a Winnipeg office.

Both Algoma Central and Upper Lakes will continue to independently own and operate their respective vessels dedicated to the pool. Currently, Algoma Central provides SMT with 13 self-unloaders and nine bulkers. Upper Lakes provides eight self-unloaders and 13 bulkers.

Both bulker and self-unloader customers will see more flexibility, and an even greater ability to meet their challenges, with a larger and more diversified fleet. In addition, the single, streamlined organization provides the necessary platform for further innovation and service enhancements which will benefit all customers.

SMT is the supplier of choice for marine transportation services through leadership in customer service and support, superior cargo-handling and timely, innovative and cost-effective solutions for our customers.

It is expected that the partnership will carry about 45-million tonnes of dry-bulk commodities in 2000.

## TONNES CARRIED

### ALGOMA CENTRAL MARINE (in thousands)

	1999	1998	1997	1996	1995
Iron Ore	6,196	6,442	6,098	6,595	6,588
Coal & Coke	4,793	4,210	4,551	4,117	3,404
Grain	1,916	1,986	2,616	2,520	4,306
Salt	4,910	5,432	5,171	3,863	3,131
Aggregates	6,586	6,242	6,078	5,602	5,341
Petroleum Products	3,782	2,532	0	0	0
Other	1,448	1,489	1,861	1,463	1,180
<b>Total</b>	<b>29,632</b>	<b>28,333</b>	<b>26,375</b>	<b>24,160</b>	<b>23,950</b>

Based on tonnes carried by vessels owned or chartered by the Corporation (excluding MCI vessels)

### Marbulk Canada Inc.

On January 26, 2000, The CSL Group Inc. (CSL) and Upper Lakes Group Inc. jointly announced that CSL is in the process of purchasing Upper Lakes' 50-percent share of Marbulk Canada Inc.

CSL International Inc. (CLSI), a subsidiary of CSL, operates a fleet of self-unloading vessels, mainly on the east and west coasts of North and South America. CSLI's vessels are currently in a commercial shipping pool with the self-unloading vessels owned by Egon Oldendorff (EO). Once the arrangement is finalized, it is intended that the Marbulk commercial operation will be combined with the CSLI/EO pool to form the largest ocean-going, self-unloading fleet in the world.

Algoma Central Corporation expects to benefit from the proposed addition of the Marbulk fleet to the CSLI/EO pool through the improved service and scheduling flexibility that will result.

Marbulk would continue the technical management of the seven vessels it owns.

### Self-unloader Technical Improvements

The most recent self-unloader conversions of the M/V Capt. Henry Jackman and the M/V Algowest have incorporated several technological innovations:

- The ships are unloaded via a remote-control system

operated by one person, allowing total control of the unloading system from one end to the other. Personnel are not required to go into the tunnel spaces during the unloading process. Closed-circuit video cameras assist the remote operator.

- Variable-speed discharge belts, which allow the vessel to unload at a rate matching that of the receiving facility have been fitted to the M/V Capt. Henry Jackman, M/V Algomarine, M/V Algosteel and the M/V Algowest.
- Technical improvements to all self-unloaders include ultra-high-molecular-weight coatings in the cargo holds. Cargoes now slide more freely through the tunnel doors, reducing manual labour and increasing the speed of unloading.
- Hydraulic systems have been simplified to reduce the amount of hydraulic equipment and potential sources of oil leaks in the self-unloading tunnels.
- Butterworth systems, which automatically wash out cargo holds after cargoes are discharged, have been fitted to the M/V Capt. Henry Jackman and the M/V Algowest. This reduces the amount of wash water required and eliminates the need for crew to climb down into the holds.

### Vessel-Handling Training

- Two years ago, ACM began sending junior masters to Southampton, England for training in ship handling. A lake has been set up there with docks and canals on which 40-foot scale models are manoeuvred by the captains-in-training. All engine power and responses are scaled to size and the boats react similarly to full-size ships.

## Fraser Marine & Industrial

Fraser Ship Repairs, a division of Algoma Central Marine, provides ship-repair and steel-fabricating services to the Corporation's vessels, as well as to other fleets on the Great Lakes, St. Lawrence River and east coast of Canada.

In January 2000, Fraser's name changed to Fraser Marine & Industrial. This will better reflect the expansion into a more diversified industrial repair market.

The 2000 winter works period (three months from January to March) is forecasted to be the busiest winter on record. Revenue for this period is projected at \$10,000,000 (including intra-company sales) with the peak level of employment expected to exceed 500 employees. Fraser crews will carry out work on vessels in the Ports of Sarnia, Sorel, Quebec, Hamilton, Owen Sound and Port Colborne.

Larger projects include:

- Complete renewal of the centre unloading conveyor and doubling of the 16,500-sq. ft. tunnel tank top on the M/V Algolake
- Complete renewal of the self-unloading conveyor and doubling the entire tank top on the M/V Canadian Olympic
- Renewal/repair of all 22 deck arches and entire renewal of main tunnel hydraulic lines for all three conveyors on the M/V John B. Aird
- Extensive renewals of ballast tank internals and extensive hatch cover repairs on the M/V Ferbec.

## Marine Environmental Initiatives

Algoma Central Marine's high level of commitment to environmental protection is demonstrated by the following initiatives:

- Enclosures for self-unloading booms have been fitted to all ACM self-unloaders in order to contain dust from the cargo. Boom spout extensions are available to further control cargo dust. The spouts reduce the free fall of cargo, depositing the cargo directly onto piles or into hoppers.



*M/V ALGOEAST undergoing the \$6.2-million double-hull conversion at Port Weller Dry Docks in Ontario.*

- Cargo wash-water containment tanks, which can be pumped out in designated areas, have been fitted to the self-unloaders M/V Capt. Henry Jackman, M/V Algowest, M/V Algorail and the M/V Algoway.
- A double-bottom hull is in the process of being added to the tanker M/V Algoeast. This work is progressing at Port Weller Dry Docks in St. Catharines and the vessel will be redelivered for the current shipping season.



*Refurbishing of the M/V ALGOPORT by Fraser Marine & Industrial includes repiping and strengthening of self-unloader loop belts.*



*S/S ALGOSOUND. The 28,750-tonne bulker serves in the fleet of the newly merged partnership, Seaway Marine Transport, headquartered in St. Catharines, Ontario (photograph by Wayne Farrar).*

Government regulations in both Canada and the United States require that all petroleum tankers be of double-hull construction by a certain date. The M/V Algoeast is double sided but single bottomed and otherwise would have been retired in 2007.

### The EnerChem Acquisition

In January of 1999, the Corporation purchased the main operating companies and certain assets of the EnerChem Group for \$19.8 million. EnerChem specialized in the marine transportation of petroleum products on the Great Lakes, St. Lawrence River and the coastal waters of Eastern Canada.

With this transaction, Algoma Central acquired three Canadian registered vessels (one of which is double hulled) and a 25-percent interest in Cleveland Tankers (1991) Inc. CTI owns and operates two US-flag tankers, both of which are double hulled. The US-flag tankers are time chartered

### Marine Safety Training

The safety of Algoma Central Marine crews and working environments has always been a priority. In order to ensure the highest standard of marine safety training and accident prevention, continuous instruction includes:

- Shipboard training in equipment lock-out procedures, confined-space entry and safety behavioral modification.
- Winter training and upgrade programs at the Seafarers Training Institute in Montreal with the cooperation of the Seafarers International Union.
- Training for deck officers in the use of the Electronic Chart Display and Information System (ECDIS) which has been installed on all Algoma Central vessels.

on a long-term basis to a wholly owned subsidiary of Algoma Central, Algoma Tankers (USA) Inc., located in Cleveland, Ohio.

The acquisition of EnerChem allows Algoma Tankers to offer its customers a wider range of services, and complements the existing five-vessel fleet purchased in 1998 from Imperial Oil Limited.

### **The Outlook for 2000**

For the 2000 navigation season, demand for self-unloaders should be very strong since most major market segments are projecting continued growth. Seaway Self Unloaders made important progress in 1999 securing long-term contracts with several key customers. This is in addition to a diversified portfolio of customers in most market segments. Diversification provides the best opportunity for growth and for security from the risk that any particular market segment may temporarily decline.

We are especially confident of coal movements due to the high demand expected from Ontario thermal power-generating plants.

Unfortunately, we again find it difficult to predict the volume of grain that will be transported by water from Great Lakes elevators to the St. Lawrence River. We are optimistic that the new focus Seaway Marine Transport will bring to the movement of grain will lead to improved utilization of our bulker fleet.

Algoma Tankers has formed a new marketing and chartering team based in St. Catharines, Ontario whose single focus is to improve the utilization of the tanker fleet. Significant overhead savings will result from the relocation in 1999 of offices from Dartmouth and Montreal to St. Catharines.

Turning to Marbulk, we are extremely confident that the proposed CSLI/EO/MCI commercial pool will create efficiencies that will have economic benefit for Marbulk. Most challenging, once the combined commercial pool is initiated, will be rationalization of Marbulk's technical capabilities.

The Corporation is currently in the fourth year of five-year agreements with the Seafarer's International Union (representing unlicensed crew), the Canadian Merchant Service Guild (representing licensed mates), and the Canadian Marine Officers Union (representing licensed engineers), with respect to the dry-bulk fleet. All three of these agreements expire on May 31, 2001. We expect to begin discussions with the unions shortly, with the goal of renewing the agreements prior to their expiry.

Algoma Tankers Limited (ATL) and EnerChem Transport Inc. (ETI) have separate labour agreements with the same unions as the dry-bulk fleet. The ATL agreements expire January 31, 2003 while the ETI agreements expire May 31, 2001 except for the agreement with the Canadian Merchant Service Guild which expires May 31, 2002.

### **International Safety Management Code (ISM Code)**

Algoma Central Corporation is committed to ensuring that its vessels operate in a manner that protects our environment and particularly our waterways. To this end we have mandated that all vessels which the Corporation owns or operates will be International Safety Code (ISM Code) certified. The ISM Code was adopted in 1994 by the International Maritime Organization and now is accepted worldwide as the standard for use by ship operators in addressing shipboard safety and environmental protection. At the end of 1999, 19 of the Corporation's dry-bulk Great Lakes vessels were ISM certified. The Algoma Tanker fleet obtained both ISM Code and ISO 9002 certifications in 1998, and the Marbulk fleet is also ISM Code certified.

# ALGOMA CENTRAL CORPORATION

## FLEET INFORMATION

Name	Built /Converted	Class	Capacity in Tonnes
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### Algoma Central Marine - Self-unloaders

M/V John B. Aird	1983	Great Lakes & St. Lawrence River	31,496
M/V Algowood	1981	Great Lakes & St. Lawrence River	32,288
M/V Algobay	1978	Great Lakes & Eastern Seaboard of Canada	34,381
M/V Algolake	1977	Great Lakes & St. Lawrence River	33,508
M/V Algosoo	1974	Great Lakes & St. Lawrence River	32,004
M/V Algomarine	1968/1989	Great Lakes & St. Lawrence River	26,548
M/V Algosteel	1966/1990	Great Lakes & St. Lawrence River	26,534
M/V Algoport	1979	Great Lakes & Eastern Seaboard of Canada	31,902
M/V Algoway	1972	Great Lakes & St. Lawrence River	24,486
M/V Agawa Canyon	1970	Great Lakes & St. Lawrence River	24,435
M/V Algorail	1968	Great Lakes & St. Lawrence River	24,191
M/V Sauniere	1970/1976	Great Lakes & Eastern Seaboard of Canada	23,805
M/V Algowest	1982/1998	Great Lakes & St. Lawrence River	30,675
M/V Capt. Henry Jackman	1981/1996	Great Lakes & St. Lawrence River	31,050

### Algoma Central Marine - Bulk Carriers

M/V Algoville	1967	Great Lakes & St. Lawrence River	31,182
M/V Algocen	1968	Great Lakes & St. Lawrence River	29,464
M/V Algonorth	1971	Great Lakes & St. Lawrence River	29,210
S/S Algosound	1965	Great Lakes & St. Lawrence River	28,750
S/S Algogulf	1961	Great Lakes & St. Lawrence River	27,940
M/V Algocape	1967	Great Lakes & St. Lawrence River	27,125
M/V Algoisle	1963	Great Lakes & St. Lawrence River	25,997
M/V Algotario	1977	Great Lakes & St. Lawrence River	28,591
S/S Algoriver	1960	Great Lakes & St. Lawrence River	27,737

### Algoma Tankers - Petroleum Tankers

M/V Algoeast	1977	Great Lakes & Eastern Seaboard of Canada	10,058
M/V Algosar	1974	Great Lakes & Eastern Seaboard of Canada	12,910
M/V Algofax	1969	Great Lakes & Eastern Seaboard of Canada	14,204
M/V Algoscotia	1966	Great Lakes & Eastern Seaboard of Canada	10,475
M/V Algonova	1969	Great Lakes & St. Lawrence River	7,056
M/V Algocatalyst	1972	Great Lakes & St. Lawrence River	10,559
M/V Enerchem Trader	1961	Great Lakes & St. Lawrence River	10,802
M/V Gemini (charter)	1978	Great Lakes & St. Lawrence River	12,700
M/V Saturn (charter)	1974	Great Lakes & St. Lawrence River	7,854

### Marbulk Canada Inc. - Self-unloaders

M/V Pioneer	1981	Ocean-going	37,448
M/V Ambassador	1983	Ocean-going	37,263
M/V Nelvana	1983	Ocean-going	74,974
M/V Eastern Power	1989/1998	Ocean-going	68,608
M/V Thornhill	1987/1998	Ocean-going	35,463
M/V Weser Stahl	1999	Ocean-going	43,900
M/V Bahama Spirit	1995/2000	Ocean-going	40,931

# REAL ESTATE GROUP

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Performance of the Real Estate Group

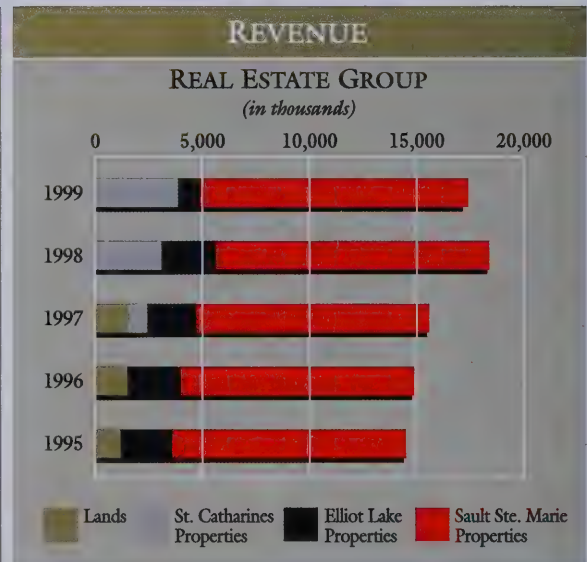
Algoma Central Properties Inc. further consolidated operations in 1999 with the sale of the Algo Centre, the Elliot Lake retail and hotel complex. The viability of commercial real estate in Elliot Lake, in both the short and long term, was a concern. A major factor was the significant decline in the population of the area over the last decade.

Real Estate Group is now concentrating its efforts on the Sault Ste. Marie and St. Catharines, Ontario properties.

The Sault Ste. Marie properties, which include a shopping centre, hotel, two office buildings and an apartment building, were developed and continue to be managed by the Real Estate Group.

This year was the first full year of operation for the properties in St. Catharines which were purchased in 1998. This includes two retail plazas; a service and light-industrial plaza; vacant land appropriate for development; a 50-percent interest in an office building; and another office building which, among other tenants, includes Algoma Central Marine's executive and administrative offices.

There was a significant increase in the St. Catharines property revenue, although Real Estate Group revenue showed an overall decrease of four percent, mainly due to the disposal of the Algo Centre.



Revenue for Station Mall decreased by two percent below 1998, although occupancy is now at 98 percent. The revenue decrease is primarily due to the closure of the full-line grocery store at the end of 1998. This particular space, consisting of 20,000-sq. feet, including an 8,000-sq. foot expansion, is being redeveloped in conjunction with the existing theatre area. The new Galaxy Cinemas, opening this spring, will be a 12-screen, 2,400-seat theatre and entertainment complex encompassing about 50,000-sq. feet. All of the cinemas will feature new sound systems,



*Artist's concept of the Galaxy Cinemas under construction by Algoma Central Properties Inc. and Galaxy Entertainment Inc. Galaxy is an all-Canadian company, majority controlled by Onex Corporation. The Cinemas are an addition to ACP's high occupancy Station Mall in Sault Ste. Marie.*

wall-to-wall curved screens and luxurious stadium-style seating to ensure unobstructed sight lines.

The continued healthy performance of our hotel property at Sault Ste. Marie, which is leased and operated as a Holiday Inn, is reflected in the revenue increase of seven percent in 1999, following an increase of eight percent in 1998. We attribute the year-over-year increases, at least in part, to the renovations completed in 1998.

Although revenue increased by five percent for Station Tower in 1999 over 1998, and occupancy increased to 93 percent from 81 percent for the same period, the surplus of commercial office space in Sault Ste. Marie continues to take its toll on rental rates. Station Tower is one of our office buildings in Sault Ste. Marie, which we own and manage.

Our other office building, 289 Bay Street, is fully occupied with one anchor tenant occupying the first two floors and the Corporation occupying the third floor of this three-storey building. 1999 was the first full year of operation for this renewed building which was renovated in mid-1998.

The majority of tenants in our Sault Ste. Marie apartment building, Station '49', are seniors. Although the occupancy level fluctuates, the building is currently 95-percent occupied, which is the same level as this time last year. There is little opportunity to increase rental rates due to the overall local market vacancy rate, which is currently 11 percent.

Revenue has increased 14 percent over 1998 for 63 Church Street, St. Catharines following a 10-percent increase the previous year. The occupancy of this downtown office building remains at the same level as last year.

Revenue and expenses for the remaining properties in St. Catharines, which we purchased in 1998, are consistent with our expectations. Ridley Square, a retail plaza, is fully leased. We have recently relocated certain tenants in order to accommodate the expansion requirements of our major drug-store anchor. The new format store, consisting of about 10,000-sq. feet, will provide the tenant with the



*The Holiday Inn in Sault Ste. Marie, after the recent \$2.7-million renovation.*

physical means to compete with the growing big-box-store market.

Martindale Business Centre, a service and industrial plaza, is also 100-percent leased, up from 82 percent one year ago.

We are examining the feasibility of expanding Huntington Square as the development is already serviced with utilities to provide for a 16,000-sq. foot addition to the existing building. This commercial plaza is 96-percent occupied – the same as last year.

We continue to promote the vacant-land component of Henley Corporate Park for commercial office development. This property is in an excellent location and the development includes the office building known as 75 Corporate Park Drive. This first-class building continues to be fully occupied.

In 2000, we expect to invest a total of approximately \$1,500,000 in building renovations, tenant improvements and general upgrading. In 1999, the Real Estate Group invested \$1,289,000 on similar projects.

We recognize the valuable contributions of our employees and their role in making Real Estate Group a continued success.

# FINANCIAL REVIEW

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Operating Results

- Revenue from operations for 1999 totaled \$257,477,000, an increase of \$18,454,000 over the 1998 total of \$239,023,000.
- Increase for the year is primarily attributed to the activities of the Marine Group. The tanker fleet, with the addition in January 1999 of three tankers purchased from EnerChem Transport Inc. and a 25-percent interest in two tankers owned by Cleveland Tankers (1991) Inc. and chartered to Algoma Tankers (USA) Inc., contributed \$13,033,000 to revenue. The self-unloader and bulker fleet revenues increased \$3,104,000 even though operating days were lower in 1999. The increase in revenue is largely due to the recovery of fuel-price increases on some contracts with customers during the year.
- Revenue for the Real Estate Group declined by \$815,000 due to the sale in June 1999 of the Algo Centre, our

former commercial complex in Elliot Lake, Ontario.

- Despite the increase in revenue, operating income for 1999 declined to \$19,514,000, a decrease of \$10,669,000 when compared to the 1998 operating income of \$30,183,000.

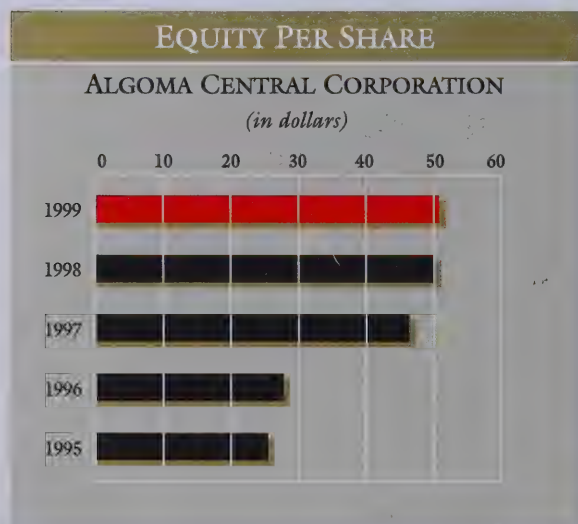
Contributing to the decrease in operating income for 1999 is a net loss of \$4,241,000 on the disposal of certain self-unloading equipment on a vessel owned by Marbulk Canada Inc. Excluding this loss, operating income for 1999 would have been \$6,428,000 lower than 1998.

Most of the reduction of \$6,428,000 occurred in the Marine Group and resulted primarily from the following:

- Lower than expected earnings from the tanker fleet due to reduced volumes of petroleum products being moved by water.
- Reduced operating earnings of the ocean-going fleet as a result of commissioning problems experienced by two vessels recently converted to self-loaders/unloaders.
- Decreased operating profitability of the self-unloader and bulker fleet due to reduced operating days and an increase in non-recoverable fuel expenses and amortization expenses.
- Increase in financing costs due to higher borrowings during the year to finance the acquisition of the EnerChem tanker fleet and expansion of the ocean-going fleet.

The decreases above were to some extent offset by a gain realized by the Corporation on the sale of the commercial complex in Elliot Lake, Ontario.

- Net income in 1999 of \$7,390,000 or \$1.90 per share was \$8,573,000 under 1998 net income of \$15,963,000 or \$4.10 per share.



- Excluding the full effect of Marbulk, our earnings in 1999 would have been \$3.65 per share – a reduction of \$0.45 per share from 1998.

### Financial Condition and Liquidity

- Despite poorer earnings, cash generated from operations before the net change in non-cash working capital for 1999 remained approximately the same as the year before.
- However, cash generated after the net change in non-cash working capital for 1999 increased by \$7,417,000 to \$38,622,000 compared to the 1998 total of \$31,205,000. In 1998, the Corporation made a significant payment of income taxes relating to the 1997 gain of forest lands. There was no such payment in 1999.
- During 1999, the Corporation, excluding the activities of Marbulk Canada Inc., spent \$34,419,000 on capital asset additions and other long-term asset acquisitions.

Included in this amount are:

- Progress payment on the double hulling of the tanker M/V Algocast (\$2,518,000).
- Purchase of three petroleum tankers from EnerChem Transport Inc. plus a 25-percent interest in Cleveland Tankers (1991) Inc., the owner of two petroleum tankers (\$16,547,000).
- Various vessel improvements under Marine Group's vessel modernization program (\$12,782,000).

The expenditures were primarily financed from cash generated from operations during 1999, issuance of new long-term debt and amounts drawn from the Corporation's line of credit.

- In addition to the above expenditures, our proportionate share of additions to ocean-going vessels by Marbulk Canada Inc. including one new self-unloader and purchase of a bulker later converted to a self-unloader totaled \$32,762,000.

### CASH FLOW PER SHARE

#### ALGOMA CENTRAL CORPORATION

(in dollars)



### EARNINGS PER SHARE

#### ALGOMA CENTRAL CORPORATION

(in dollars)



1997 excludes gain on sale of forest lands of \$13.48

- During the year the Corporation, excluding Marbulk Canada Inc., generated \$6,852,000 of cash before financing activities which was utilized to pay dividends to shareholders and to reduce bank debt.
- At December 31, 1999 the Corporation, excluding Marbulk Canada Inc., had an unused credit of \$23,338,000. This bank line of credit has been structured to reflect the seasonal nature of marine operations.

## RESPONSIBILITY FOR FINANCIAL STATEMENTS

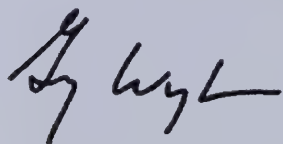
The consolidated financial statements of Algoma Central Corporation and its subsidiaries, and all information in this annual report, are the responsibility of management and have been approved by the Board of Directors.

The financial statements were prepared by management in conformity with accounting principles generally accepted in Canada and necessarily include some amounts that are based on estimates and judgements. Information used elsewhere in this annual report is consistent with that in the financial statements.

Management maintains a system of internal accounting controls designed to provide reasonable assurance that assets are safeguarded from loss and that financial records are reliable.

The Board of Directors carries out its responsibility for the financial statements principally through its Audit and Pension Committee which consists solely of outside directors. The Audit and Pension Committee meets periodically with management and the auditors to review results of audit examinations and financial reporting matters. The independent auditors appointed by the shareholders have full access to the Audit and Pension Committee, with and without management present.

The Audit and Pension Committee reviewed the financial statements in this annual report and recommended that they be approved by the Board of Directors.



Gregory D. Wight  
Vice President, Finance

## AUDITORS' REPORT

To the Shareholders of Algoma Central Corporation:

We have audited the consolidated balance sheets of Algoma Central Corporation as at December 31, 1999 and 1998 and the consolidated statements of income and retained earnings and of cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 1999 and 1998 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.



Deloitte & Touche, LLP  
Chartered Accountants  
Toronto, Ontario  
February 11, 2000

# CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Algoma Central Corporation

Years ended December 31	1999	1998
(In thousands of dollars, except per share figures)		
REVENUE	\$ 257,477	\$ 239,023
EXPENSES		
Operations	187,763	169,810
Amortization	25,923	21,479
Administrative and general	19,515	15,269
Financial	4,762	2,282
	237,963	208,840
INCOME BEFORE INCOME TAXES	19,514	30,183
INCOME TAX PROVISION (Note 4)	12,124	14,220
NET INCOME	7,390	15,963
RETAINED EARNINGS, BEGINNING OF YEAR	171,921	159,849
DIVIDENDS DECLARED DURING YEAR	(3,891)	(3,891)
RETAINED EARNINGS, END OF YEAR	\$ 175,420	\$ 171,921
EARNINGS PER SHARE	\$ 1.90	\$ 4.10

# CONSOLIDATED BALANCE SHEETS

Algoma Central Corporation

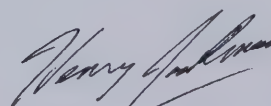
December 31	1999	1998
(In thousands of dollars)		
ASSETS		
CURRENT		
Cash and short-term investments	\$ 4,740	\$ 6,544
Accounts receivable	35,913	28,476
Materials and supplies	5,290	3,879
Prepaid expenses	3,225	3,654
	49,168	42,553
CAPITAL ASSETS (Note 5)	324,568	314,120
LONG-TERM RECEIVABLES (Note 6)	6,507	1,297
OTHER ASSETS (Note 7)	11,926	6,756
	\$ 392,169	\$ 364,726
LIABILITIES		
CURRENT		
Accounts payable and accrued charges	\$ 26,368	\$ 25,640
Deferred income taxes	16,327	17,556
Income taxes payable	2,132	1,655
Dividends payable	441	343
Current portion of long-term debt	12,578	15,152
	57,846	60,346
LONG-TERM DEBT (Note 8)	63,523	40,716
PROVISION FOR WORKERS' COMPENSATION	1,013	1,260
DEFERRED INCOME TAXES	73,495	67,862
	195,877	170,184
SHAREHOLDERS' EQUITY (Note 9)		
CURRENCY TRANSLATION ADJUSTMENT	636	2,385
SHARE CAPITAL	8,319	8,319
CONTRIBUTED SURPLUS	11,917	11,917
RETAINED EARNINGS	175,420	171,921
	196,292	194,542
	\$ 392,169	\$ 364,726

Approved by the Board:



Peter R. Cresswell

Director



Henry N.R. Jackman

Director

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Algoma Central Corporation

Years ended December 31 (In thousands of dollars)	1999	1998
<hr/>		
NET INFLOW (OUTFLOW) OF CASH		
RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net income	\$ 7,390	\$ 15,963
Items not affecting cash		
Amortization	25,923	21,479
Deferred income taxes	7,991	8,122
Loss on disposal of capital assets	3,859	—
Other	(247)	(141)
	<hr/> 44,916	<hr/> 45,423
Net change in non-cash operating working capital (Note 11)	(6,294)	(14,218)
	<hr/> 38,622	<hr/> 31,205
INVESTING		
Additions to capital assets	(50,635)	(89,107)
Purchase of EnerChem Transport Group (Note 2)	(16,547)	(1,000)
Proceeds from sale of capital assets	3,891	47
Long-term receivables	442	1,410
Other assets	3,114	276
	<hr/> (59,735)	<hr/> (88,374)
FINANCING		
Proceeds from long-term debt	23,469	16,118
Dividends paid	(3,793)	(3,793)
	<hr/> 19,676	<hr/> 12,325
(LOSS) GAIN ON CASH HELD IN FOREIGN CURRENCY	(367)	832
TOTAL CASH DECREASE FOR YEAR	(1,804)	(44,012)
CASH POSITION, BEGINNING OF YEAR	6,544	50,556
CASH POSITION, END OF YEAR	<hr/> \$ 4,740	<hr/> \$ 6,544

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Algoma Central Corporation

Years ended December 31, 1999 and 1998

(In thousands of dollars)

## 1. Significant Accounting Policies

The policies of the Corporation are as follows:

### Principles of Consolidation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada, comprise the accounts of Algoma Central Corporation, its subsidiary companies and its proportionate share of joint ventures.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Due to the inherent uncertainty in making estimates, actual results could differ from those estimates.

### Materials and Supplies

Materials and supplies are stated at cost determined on a weighted-average basis.

### Investments

Investments subject to significant influence are accounted for on the equity basis.

### Capital Assets

Capital assets are stated at cost less accumulated amortization. Interest incurred on funds borrowed to finance capital asset acquisitions is capitalized during the construction period.

Buildings and site improvements are generally amortized on the sinking-fund basis over 35 years.

Dry-bulk vessels are amortized on a straight-line basis over the number of years remaining to the year 2012.

Tanker vessels are amortized on a straight-line basis over their remaining estimated lives of three to 15 years.

Ocean dry-bulk vessels are amortized on a straight-line basis over their estimated lives of 22 to 23 years.

### Provision for Workers' Compensation

The provision for workers' compensation is an actuarial present value of unfunded liabilities payable under the Ontario Workplace Safety and Insurance Act, 1997.

### Revenue Recognition

Revenues from marine operations are recognized ratably over the term of a voyage.

Revenues from real estate operations are recognized over the term of the respective leases.

### Foreign Currency Translation

The financial statements of the Corporation's foreign self-sustaining joint venture and subsidiary companies have been translated into Canadian dollars using the year-end exchange rate for assets and liabilities and the average exchange rate for revenues and expenses. Translation adjustments are recorded as a separate component of shareholders' equity.

### Stock-Based Compensation Plans

The Corporation has two stock-based compensation plans, which are described in Note 10. The initial value

applicable to each participant, and any changes to such value, is amortized on a straight-line basis to 65 years of age.

On retirement before age 65, any unamortized balance applicable to the retiring participant is recognized as expense in the year of retirement.

#### Deferred Charges

Deferred charges are amortized on a straight-line basis over the life of the related asset.

## 2. Acquisitions

On January 13, 1999, the Corporation acquired all of the issued and outstanding shares of EnerChem Transport Inc., and certain assets of the EnerChem Group. EnerChem Transport Inc. owned three petroleum product vessels, a wholly owned foreign subsidiary and a 25% interest in Cleveland Tankers (1991) Inc., which owns and operates two petroleum product vessels. The total purchase price of \$19,832 was paid in cash.

Details of the fair value of the net assets acquired is as follows:

Assets Acquired	
Cash	\$ 2,285
Other current assets	2,505
Long-term receivable	351
Capital assets	6,375
Charter agreement	8,230
Deferred income taxes	2,982
	<hr/> 22,728
Liabilities assumed	2,896
Total purchase price	<hr/> 19,832
Less cash acquired	2,285
Total purchase price net of cash acquired	<hr/> \$ 17,547

The total purchase price paid net of cash acquired during the year was \$16,547 (1998-\$1,000).

On December 3, 1997, the Corporation acquired a 50% joint venture interest in Marbulk Canada Inc. through the purchase of treasury shares for cash consideration of \$32,008. The consideration given was subject to adjustment based upon the outcome of certain events after acquisition. During 1999, the amount of the purchase price reduction was determined to be \$8,945, of which \$2,513 has been received. The \$8,945 has been recorded in the consolidated financial statements of the Corporation and allocated to capital assets.

## 3. Interests in Joint Ventures

The Corporation has interests in Marbulk Canada Inc., Seaway Self Unloaders and Seaway Bulk Carriers with Upper Lakes Group Inc., an unrelated corporation. Subsequent to the year-end, the Corporation has been informed that The CSL Group Inc. has signed a letter of intent to purchase the interest of Marbulk Canada Inc. currently held by Upper Lakes Group Inc. A majority of the Corporation's marine income from operations is derived from these joint ventures.

Marbulk Canada Inc. owns and operates ocean-going vessels. The Seaway Self Unloaders and Seaway Bulk Carriers partnerships pool the sales, marketing and traffic operations of the partners but do not include the cost of vessels and operating costs, other than voyage and administrative costs.

The Corporation, through its wholly owned subsidiary, Algoma Central Properties Inc., also has interest in Seventy-Five Corporate Park Drive Ltd., which owns an office building.

All of the above operations are accounted for using the proportionate consolidation method. The Corporation's share in the assets, liabilities and cash flows of the jointly controlled operations are as follows:

	1999	1998
Assets	\$ 114,398	\$ 105,710
Liabilities	\$ 80,752	\$ 58,669
Cash inflow (outflow) from:		
Operating Activities	\$ 31,932	\$ 45,615
Investing Activities	\$ (29,671)	\$ (14,614)
Financing Activities	\$ 26,997	\$ 3,188

#### 4. Income Taxes

A reconciliation comparing income taxes calculated at the Canadian statutory rate to the amount provided in the consolidated financial statements is as follows:

	1999	1998
Combined federal and provincial statutory income tax rate	44.6%	44.6%
Income before income taxes	\$ 19,514	\$ 30,183
Expected income taxes	\$ 8,703	\$ 13,468
Increase (decrease) resulting from:		
Net losses in foreign jurisdictions not affected by tax	2,982	517
Foreign tax rates different from statutory rate	(163)	—
Large corporations tax	346	291
Permanent differences	523	—
Other	(267)	(56)
	\$ 12,124	\$ 14,220

The Corporation has non-capital losses of \$4,810 which may be carried forward to reduce taxable income in future years. The benefit of these losses have been recognized in the consolidated financial statements of the Corporation and expire as follows:

2002	\$ 743
2004	1,413
2005	2,223
2006	431
	\$ 4,810

#### 5. Capital Assets

1999				
	Land	Amortizable Assets	Accumulated Amortization	Net
Marine	\$ 171	\$ 594,528	\$ 320,498	\$ 274,201
Real Estate	4,963	60,409	15,005	50,367
	\$ 5,134	\$ 654,937	\$ 335,503	\$ 324,568
1998				
	Land	Amortizable Assets	Accumulated Amortization	Net
Marine	\$ 171	\$ 555,514	\$ 296,184	\$ 259,501
Real Estate	5,029	69,374	19,784	54,619
	\$ 5,200	\$ 624,888	\$ 315,968	\$ 314,120

Marbulk Canada Inc. experienced difficulties with a conversion of a bulk carrier to a self-unloader that required removal of certain equipment from the initial conversion. This equipment was disposed of at a loss and the Corporation's proportionate share was \$4,241.

## 6. Long-Term Receivables

	1999	1998
Mortgages receivable, interest at 8.25% and 10% due in November 2002 and July 2004	\$ 1,992	\$ —
Loan receivable, secured, interest at prime +2.5% due in March 2003	1,062	1,297
Due from equity investee	1,346	—
Due from joint venture for amount in excess of proportionate share, interest at U.S. prime	2,107	—
	<u>\$ 6,507</u>	<u>\$ 1,297</u>

## 7. Other Assets

	1999	1998
Funding of retirement benefits in excess of amounts expensed	\$ 2,000	\$ 881
Charter agreement	7,407	—
Deferred charges	2,519	2,703
Restricted cash	—	3,172
	<u>\$ 11,926</u>	<u>\$ 6,756</u>

With the purchase of EnerChem Transport Inc. (see Note 2), the Corporation assumed the long-term charter arrangement between a wholly owned foreign subsidiary and Cleveland Tankers (1991) Inc., the owner of two tanker vessels. The charter agreement contains an option to purchase the vessels at any time during the charter period at a sale price equal to fair market value. A portion of the purchase price for the acquisition of the EnerChem group has been allocated to this charter arrangement and is being amortized over the remaining life of the chartered vessels.

Deferred charges consist primarily of unamortized tenant leasehold improvements and financing charges. Restricted cash of a joint venture in 1998 consists of deposits on the purchase and conversion of an ocean dry-bulk vessel.

## 8. Long-Term Debt

	1999	1998
Secured revolving bank loans, interest at floating rates which at December 31, 1999 averaged 5.8%	\$ 9,162	\$ 12,929
Mortgage, interest at 10.5%, due October 1, 2007	3,255	3,316
	<u>12,417</u>	<u>16,245</u>
Share of debt of Marbulk Canada Inc.		
US \$22,325, secured non-revolving bank loan, interest at LIBOR plus 1.5%, due October 15, 2005	32,224	36,425
US \$8,166, secured non-revolving bank loan, interest at LIBOR plus 1.5%, due February 22, 2009	11,786	1,298
US \$3,250, secured non-revolving bank loan, interest at LIBOR plus 1.5%, due July 1, 2006	4,691	1,876
US \$7,875, secured non-revolving bank loan, interest at LIBOR plus 1.0%, due November 22, 2011	11,367	—
US \$2,500, secured revolving bank loan, interest at LIBOR plus 5.0%, due June 30, 2000	3,608	—
Capitalized leases	8	24
	<u>76,101</u>	<u>55,868</u>
Less current portion	<u>12,578</u>	<u>15,152</u>
	<u>\$ 63,523</u>	<u>\$ 40,716</u>

The Corporation's proportionate share of long-term debt of Marbulk Canada Inc. has been secured by assets of the joint venture. The Corporation has not guaranteed the long-term debt of Marbulk Canada

Inc. As explained in Note 15 the interest rates on a majority of the long-term debt of Marbulk Canada Inc. have been fixed. Interest on long-term debt amounted to \$5,407 and \$3,402 in 1999 and 1998 respectively, of which \$627 and \$1,120 in 1999 and 1998 respectively, was capitalized.

Principal payments required to service the debt are as follows:

2000	\$	12,578
2001		3,557
2002		3,565
2003		3,574
2004		12,591
	\$	35,865

## 9. Shareholders' Equity

Authorized share capital consists of an unlimited number of common and preferred shares. At December 31, 1999 and 1998, there were 3,891,211 common shares and no preferred shares issued and outstanding.

## 10. Stock-Based Compensation Plan

At December 31, 1999, the Corporation has two stock-based compensation plans.

Under the Restricted Share Unit plan, the Corporation grants Restricted Share Units (RSU) to certain officers. The value of each RSU equals the fair market value of one common share of the Corporation determined with reference to the price of such shares traded on The Toronto Stock Exchange immediately prior to the redemption date.

Under the Long-Term Incentive Plan, the Corporation at one time issued (but no longer issues) Long-Term Incentive Plan Units (LTIPU) to certain officers. The value of each LTIPU is determined by a formula with reference to (i) earnings per share over the preceding five years and (ii) shareholder's equity per share as at the end of the most recently completed fiscal year.

Holders receive an amount equal to any cash dividend per common share paid, except any cash dividend deemed extraordinary by the Board of Directors, for each RSU or LTIPU held.

On retirement at or after 65 years of age, on retirement before 65 years of age at the request of the Corporation, on retirement due to permanent disability or on death while employed by the Corporation, holders receive 100% of the value of each RSU or LTIPU held. On retirement before age 65 at the request of the holders, holders receive 100% of the value of each RSU or LTIPU held less 3% for each year actual retirement date predates normal retirement date.

On termination of employment, holders receive no amount if termination occurs within five years of the initial grant or if employment is terminated by the Corporation for cause; 50% of the value of each RSU or LTIPU held if termination occurs between five and 10 years after the initial grant; and 75% of the value of each RSU or LTIPU held if termination occurs more than 10 years after the initial grant.

A summary of the status of the two plans as of December 31, 1999 and 1998 and changes during the years then ended is as follows:

Plan	Number of units issued during year	Number of units outstanding	Unit value	Weighted average term to 65 years of age	Expense (income) recognized during year
1999					
RSU	3,500	46,350	\$28.75	12.0 years	\$150
LTIPU	Nil	18,000	\$48.15	4.6 years	(\$74)
1998					
RSU	Nil	42,850	\$45.50	13.0 years	\$357
LTIPU	Nil	18,000	\$50.19	5.6 years	\$40

No units were redeemed during 1999 or 1998.

## 11. Changes in Non-cash Operating Working Capital

	1999	1998
Increase in accounts receivable	\$ (3,682)	\$ (4,581)
(Increase) decrease in materials and supplies	(1,411)	981
Decrease (increase) in prepaid expenses	436	(227)
(Decrease) increase in accounts payable and accrued charges	(1,863)	337
Increase (decrease) in income taxes payable	226	(10,728)
	\$ (6,294)	\$ (14,218)

## 12. Pension Plans

At December 31, 1999 and 1998, the actuarial present value of the accrued pension benefits of employees for services rendered to date amounted to \$88,411 and \$82,344 respectively, and the market-related value of the pension fund assets amounted to \$97,903 and \$96,513 respectively.

## 13. Commitments

The Corporation, including its share of commitments in its joint ventures, is committed to capital expenditures at December 31, 1999 of approximately \$8,275 due for payment in 2000.

The Corporation has guaranteed a bank loan of an equity investee. At December 31, 1999 the amount outstanding under this loan is \$4,299.

One of the Corporation's foreign subsidiaries has time charter agreements with an equity investee for the use of two tanker vessels for the movement of petroleum products. The agreements expire in 2006, with an option to extend the time charter for up to three successive renewal terms of five years each.

## 14. Comparative Figures

Certain comparative figures have been reclassified to confirm with the financial statement presentation adopted in the current year.

## 15. Financial Instruments

### Financial Risk

Financial risk is the risk to the Corporation's earnings that arises from fluctuations in interest rates, foreign exchange rates, and the degree of volatility of these rates.

The Corporation's financial instruments that are included in the Consolidated Balance Sheet are comprised of cash, accounts receivable, long-term receivables, accounts payable and accrued charges, income taxes payable and long-term borrowings.

At December 31, 1999, the Corporation does not have a significant exposure to fluctuations in interest rates. The interest rates on the majority of the long-term debt of Marbulk Canada Inc. have been fixed through interest rate swap agreements expiring at various dates to 2008.

### Credit Risk

Credit risk arises from the potential that a counterparty will fail to perform its obligations. The Corporation is exposed to credit risk from customers. However, the Corporation's businesses have a number of significant diverse customers which reduces the concentration of credit risk.

### Fair Value

Based on management's best estimate, the book value of financial assets and liabilities represent the fair value of those amounts at December 31, 1999 and 1998.

## 16. Segment Disclosures

The Corporation operates principally in two business segments, marine transportation and real estate. The marine transportation segment consists of 23 dry-bulk lake vessels and nine tankers, two of which are under time charter agreements to the Corporation, which operate primarily within the Great Lakes and St. Lawrence Seaway. Marine transportation also includes an interest in seven ocean dry-bulk vessels which trade world wide, and a ship repair and marine engineering business. The real estate segment consists of development, rental and management of shopping centres, hotels, office buildings and an apartment building in Sault Ste. Marie and St. Catharines, Ontario.

### 1999

	Marine	Real Estate	Total
Revenue	\$ 239,937	\$ 17,540	\$ 257,477
Income from operations	\$ 13,575	\$ 5,939	\$ 19,514
Assets	\$ 337,638	\$ 54,531	\$ 392,169
Additions to capital assets	\$ 49,685	\$ 950	\$ 50,635
Amortization	\$ 23,708	\$ 2,215	\$ 25,923
Interest expense	\$ 4,337	\$ 425	\$ 4,762

### 1998

	Marine	Real Estate	Total
Revenue	\$ 220,668	\$ 18,355	\$ 239,023
Income from operations	\$ 24,060	\$ 6,123	\$ 30,183
Assets	\$ 305,874	\$ 58,852	\$ 364,726
Additions to capital assets	\$ 67,873	\$ 21,234	\$ 89,107
Amortization	\$ 19,231	\$ 2,248	\$ 21,479
Interest expense	\$ 1,358	\$ 924	\$ 2,282

Marbulk Canada Inc., a joint venture in which the Corporation participates, and a wholly owned subsidiary of the Corporation carry on most of their operations in foreign jurisdictions. The Corporation's proportionate share of the joint venture's and the wholly owned subsidiary's assets and revenue at December 31, 1999 and 1998 are as follows:

	1999	1998
Assets	\$ 97,784	\$ 81,776
Revenue	\$ 41,842	\$ 25,288

Marine operations include export sales, primarily to the United States, of \$83,674 in 1999 and \$68,037 in 1998. Revenue from a Marine customer totaled \$27,292 and \$26,369 in 1999 and 1998 respectively, which represents 11.0% of consolidated revenues for both years.

## 17. Uncertainty Due to the Year 2000 Issue

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to the efforts of customers, suppliers, or other third parties, have been fully resolved.

## FIVE - YEAR SUMMARY

(In thousands of dollars, except per share figures)

	1999	1998	1997	1996	1995
<b>Revenue</b>					
Marine Group	\$ 239,937	220,668	171,526	162,822	162,518
Real Estate Group	\$ 17,540	18,355	15,572	14,920	14,454
	\$ 257,477	239,023	187,098	177,742	176,972
<b>Net income</b>					
Before net gain on sale of forest lands	\$ 7,390	15,963	23,497	12,724	11,790
After net gain on sale of forest lands	\$ 7,390	15,963	75,950	12,724	11,790
Amortization	\$ 25,923	21,479	11,797	18,389	18,875
Cash flow from operations	\$ 38,622	31,205	33,091	32,586	27,969
Dividends paid	\$ 3,793	3,793	3,793	3,034	2,276
<b>Capital asset additions</b>					
Marine Group	\$ 49,685	67,873	28,614	26,563	14,157
Real Estate Group	\$ 950	21,234	3,967	1,125	73
	\$ 50,635	89,107	32,581	27,688	14,230
<b>Capital assets</b>					
Marine Group	\$ 274,201	259,501	204,370	133,498	123,925
Real Estate Group	\$ 50,367	54,619	35,349	33,032	33,345
	\$ 324,568	314,120	239,719	166,530	157,270
Long-term debt (LTD)	\$ 63,523	40,716	31,478	—	104
Shareholders' equity	\$ 196,292	194,542	180,085	108,026	98,415
LTD as % of capital assets	20%	13%	13%	—	—
LTD as % of shareholders' equity	32%	21%	17%	—	—
Operating ratio	91%	86%	77%	86%	87%
Working capital ratio	0.85/1	0.71/1	1.35/1	0.71/1	0.58/1
<b>Common Share Statistics</b>					
Common shares outstanding (000)	3,891	3,891	3,891	3,891	3,891
<b>Net income</b>					
First quarter	\$ (0.78)	0.22	(0.03)	(0.11)	(0.02)
Second quarter	\$ 1.15	1.29	1.84	0.69	1.01
Third quarter	\$ 1.51	1.41	2.42	1.40	1.61
Fourth quarter	\$ 0.02	1.18	1.81	1.29	0.43
Before net gain on sale of forest lands	\$ 1.90	4.10	6.04	3.27	3.03
After net gain on sale of forest lands	\$ 1.90	4.10	19.52	3.27	3.03
Cash flow from operations	\$ 9.93	8.02	8.50	8.37	7.19
<b>Quoted market value</b>					
High	\$ 55.00	88.00	75.00	40.00	29.00
Low	\$ 27.00	43.00	39.00	27.87	21.00
Dividends	\$ 1.00	1.00	1.00	0.80	0.60
Shareholders' equity	\$ 50.45	50.00	46.28	27.76	25.29

# DIRECTORS, OFFICERS AND SHAREHOLDER INFORMATION

## DIRECTORS

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H. Michael Burns<sup>(2)(3)</sup>  
Maple, Ontario. Corporate Director

William J. Corcoran<sup>(2)(4)</sup>  
Kleinburg, Ontario.  
Vice Chairman, Ontario Pension Board

Peter R. Cresswell, P.Eng.<sup>(3)(4)</sup>  
Sault Ste. Marie, Ontario.  
President and Chief Executive Officer,  
Algoma Central Corporation

Duncan N. R. Jackman<sup>(1)(3)</sup>  
Toronto, Ontario.  
Managing Director, The Fulcrum Investment Company  
Limited

The Honourable Henry N. R. Jackman<sup>(2)(4)</sup>  
Toronto, Ontario.  
Chairman and President, E-L Financial Corporation  
Limited

Bruce J. Jodrey<sup>(1)</sup>  
Windsor, Nova Scotia.  
Chairman and Chief Executive Officer, CKF Inc.

Radcliffe R. Latimer<sup>(1)(2)(4)</sup>  
Toronto, Ontario. Retired

The Honourable Frank S. Miller, P.Eng.<sup>(1)(2)(3)(4)</sup>  
Township of Muskoka Lakes, Ontario.  
Vice Chairman, Algoma Central Corporation

Clive P. Rowe<sup>(2)</sup>  
New York, New York. Partner, SLS Capital

- <sup>(1)</sup> Member of the Audit and Pension Committee  
<sup>(2)</sup> Member of the Corporate Governance Committee  
<sup>(3)</sup> Member of the Environmental, Health and Safety  
Committee  
<sup>(4)</sup> Member of the Executive Committee

## PRINCIPAL OFFICERS

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The Honourable Henry N. R. Jackman, Chairman

The Honourable Frank S. Miller, P.Eng., Vice Chairman

Peter R. Cresswell, P.Eng.  
President and Chief Executive Officer

Timothy S. Dool, C.A., Vice President, Marine Group

Robert E. Leistner, C.A.  
Vice President, Algoma Central Properties Inc.

Robert G. Topp, C.A., Vice President, Administration

W. S. Vaughan, Secretary

Gregory D. Wight, C.A., Vice President, Finance

## SHAREHOLDER INFORMATION

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Banker:  
The Bank of Nova Scotia

Auditors:  
Deloitte & Touche, LLP

Solicitors:  
Aird & Berlis

The Toronto Stock Exchange symbol: ALC

Share Registrar and Transfer Agent:  
CIBC Mellon Trust Company  
320 Bay Street, P.O. Box 1  
Toronto, Ontario M5H 4A6  
(416) 643-5500; (800) 387-0825

### SHAREHOLDERS' MEETING

The Annual Meeting of Shareholders will be held  
at 11:30 a.m., Tuesday May 2, 2000,  
at the St. Catharines Golf and Country Club,  
70 Westchester Avenue, St. Catharines, Ontario.

# ALGOMA CENTRAL CORPORATION

## Head Office

289 Bay Street, P.O. Box 7000  
Sault Ste. Marie, Ontario P6A 5P6  
(705) 946-7200  
www.algonet.com

## Algoma Central - Marine Group Algoma Tankers

63 Church Street, Suite 600  
St. Catharines, Ontario L2R 3C4  
(905) 687-7888

## Algoma Central Marine - Ship Management Algoma Central Marine - Technical Services

Marine Consultants & Designers  
610 Welland Avenue  
St. Catharines, Ontario L2M 5V6  
(905) 708-3800

Algoma Central Properties Inc.  
289 Bay Street, P.O. Box 7000  
Sault Ste. Marie, Ontario P6A 5P6  
(705) 946-7220

Algoma International Inc.  
Alleyne House, White Park Road  
Bridgetown, Barbados

Algoma Tankers (USA) Inc.  
Cleveland Tankers (1991) Inc.  
One Cleveland Centre  
1375 East 9th Street, Suite 970  
Cleveland, Ohio 44114  
(216) 771-1999

Fraser Marine & Industrial  
1 Chestnut Street  
Port Colborne, Ontario L3K 1R3  
(905) 834-4549

Marbulk Canada Inc.  
Marbulk Shipping Inc.  
27 Congress Street  
Salem, Massachusetts  
01970-5575 USA  
(508) 741-0800  
www.marbulk.com

Seaway Marine Transport  
80 King Street, Suite 800  
St. Catharines, Ontario L2R 7G1  
(905) 988-2600  
www.seawaymarinetransport.com

## MARINE GROUP

Algoma Central Marine  
Operates the Corporation's 23  
bulker and self-unloader ships.

Algoma International Inc.  
Explores international shipping  
opportunities for the Corporation.

Algoma Tankers  
Operates the Corporation's seven  
tanker ships.

Cleveland Tankers (1991) Inc.  
25-percent owned. Owns and  
operates two tankers which are time  
chartered to Algoma Tankers (USA)  
Inc.

Algoma Tankers (USA) Inc.  
Charters vessels owned by Cleveland  
Tankers (1991) Inc.

Fraser Marine & Industrial  
Performs ship repairs and  
maintenance.

Marbulk Canada Inc.  
50-percent owned. Owns and  
operates seven ships in ocean trades.

Marine Consultants & Designers  
Provides naval-architectural and  
marine-engineering services.

Seaway Marine Transport  
Partnership with Upper Lakes Group  
Inc. Performs traffic and marketing  
functions for pooled fleet of dry-  
cargo ships.

## REAL ESTATE GROUP

Algoma Central Properties Inc.  
Manages the Corporation's  
commercial properties in Sault Ste.  
Marie and St. Catharines, Ontario.

Seventy-Five Corporate Park Drive  
Ltd.

Jointly owned with Niagara Credit  
Union. Owns one office building  
which is managed by Algoma Central  
Properties Inc.

This Annual Report has been  
produced using recycled and  
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